

**DMA Audit Section  
State-owned Nursing Facility  
Guidance for Cost Report Preparation  
FYE: June 30, 2007**





North Carolina  
Department of Health and Human Services  
**Division of Medical Assistance**  
**Audit Section**

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Michael F. Easley, Governor  
Carmen Hooker Odom, Secretary

Mark T. Benton, Director  
William W. Lawrence, Jr., M.D., Senior Deputy Director

June 11, 2007

Dear State Facility:

In accordance with the Reimbursement Plan for Nursing Facilities, the software for the 2007 Medicaid cost reporting forms are available on the Division of Medical Assistance Web page at <http://www.ncdhhs.gov/dma>.

The downloadable FoxPro software will enable you to input and generate your 2007 Medicaid cost report. The User's Guide includes instructions for generating a blank cost report and inputting data to generate your completed cost report. **The furnished software is not to be modified in any manner.**

We have also made available software for those facilities required to file a home office cost report. See [NF Home Office Cost Statement Instructions](#) for details.

**There are important requirements if you have business transactions with related organizations.** Please read the Guidance for Cost Report Preparation for instructions in submitting additional documentation with the cost report if a nursing facility is claiming a related organization is 'non-related by exception' pursuant to HCFA-15, Section 1010.

The cost report for the fiscal year ended June 30, 2007 is due by Tuesday, November 27, 2007. We do **not** plan to issue any extensions from this date. The cost report disk file (3½" diskette) must be mailed along with the items on the enclosed checklist to:

**US Mail**

Desk Audit Section  
Division of Medical Assistance  
2501 Mail Service Center  
Raleigh, North Carolina 27699-2501

**Alternate Shipping**

Desk Audit Section  
Division of Medical Assistance  
421 Fayetteville St.  
Raleigh, NC 27601

You **must** indicate on the filed working trial balance the line number on which the account number is included on Schedule A (expenses). Cost reports filed without this cross-referencing will be deemed incomplete and delinquent.

If a settlement is due the Medicaid Program, remit amount under separate cover to:

DHHS – Controller's Office  
DMA – Accounts Receivable  
2022 Mail Service Center  
Raleigh, North Carolina 27699-2022

***Make checks payable to:  
Division of Medical Assistance***

The Division of Medical Assistance may withhold up to twenty percent (20%) per month of a nursing facility's payments for **failure to file** a completed cost report by November 27, 2007.

Below, we have furnished Guidance for Cost Report Preparation to assist you in preparing the cost reporting forms in accordance with our requirements. Also, Frequently Asked Questions (FAQs) can be accessed at <http://www.ncdhhs.gov/dma/audit.htm>. If you have questions regarding the software or its operations, please contact a Computer Consultant at the Division of Information Resource Management (DIRM) at (919) 855-3200. If you have questions regarding the cost reporting forms, please contact the DMA Audit Section via e-mail at [jim.flowers@ncmail.net](mailto:jim.flowers@ncmail.net) or by telephone at (919) 647-8060.

Sincerely,

**James B. Flowers**  
Audit Section Chief

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**Cost Report / State Plan Changes**

**With the new methodology, the distinction between INC and SNC levels of care for days, cost, and charges was removed. Former INC and SNC levels of care are now represented by a single Nursing level of care on the cost report. As the fiscal intermediary has not yet merged these former INC and SNC provider numbers, we require the providers to still input both INC and SNC assigned provider numbers on the General Information Schedule.**

The cost report software has been modified to accept the new National Provider Identifier (NPI) number per HIPAA regulations. You must enter both the old N.C. Medicaid provider numbers as well as the new NPI number to ensure proper matching for all claims processed by the Intermediary. If you do not have an NPI number at this time, be aware CMS is requiring all providers to be in compliance by May 23, 2007. Visit the CMS website for more information at [NPI Overview](#).

Schedule E, Part II was deactivated in Fiscal Year 2006 and is not required.

**Midnight Census** – A full copy of the provider’s original midnight census must be filed with the cost report. The days input on the Monthly Census Summary Schedules shall agree with the midnight census furnished by the provider.

**Chart of Accounts** – The Chart of Accounts was revised to accommodate the new reimbursement methodology in 2004 and minor clarification changes were made for FY 2005. See further explanation below under section for Schedule A.

**Direct Care Patient Equipment** – With the new reimbursement methodology and corresponding chart of accounts, DCPE is no longer segregated as a direct cost. Each cost center allows for the direct expenditure of equipment which does not meet the capitalization threshold described in the Chart of Accounts.

**Cost Reporting Software is Now Available Online** – Providers may download the 2007 version of the Nursing Facility cost reporting software and instruction manual by accessing the DMA web site at <http://www.ncdhhs.gov/dma/>.

**Frequently Asked Questions** – Frequently Asked Questions (FAQs) can be accessed at <http://www.ncdhhs.gov/dma/audit.htm>.

**Internal Control Questionnaire** – The Internal Control Questionnaire is available on the furnished software. Please answer all questions with a “YES”, “NO”, or a remark in the “REMARKS” section. Please refer to the software’s user manual for further instructions.

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**General Information**

**Type of Facility** – The former selection of INC and SNC as a type of facility has been replaced with the selection of Nursing.

**Type of Facility** – Providers must answer the question if they are licensed as a Continuing Care Retirement Community by the Department of Insurance. License number is subject verification.

**Nursing Facility Licensure Number / Adult Care Home Licensure Number.**

The provider must enter the Nursing Licensure Number and Adult Care Home Licensure Number issued by the Division of Facility Services, as applicable to combination facilities, on the General Information Schedule. Use the hyperlink below to access the DFS web site to locate the correct data for your facility.

<http://facility-services.state.nc.us/reports.htm>

The name of the facility must agree with name on the current Participation Agreement.

We require providers to review prior year desk and field audited cost reports and incorporate any applicable adjustments and/or recommendations into the 2007 cost report. (See HCFA-15, Section 2905.2.)

Cost reporting period of a new nursing facility **must** begin with date of certification and end with June 30, 2007.

**Facility Statistics Schedule**

**Data Input in Facility Statistics Schedule** – Only Beds Available and Bed Days Available are to be input on the Facility Statistics Schedule. Patient Day information must now be entered on the applicable Monthly Census Summary Schedules (Nursing, Ventilator, Head Injury, and Adult Care Home). Again, please note that former INC and SNC levels of care are combined into Nursing.

**Monthly Census Summary Schedules**

**All Days** – these must agree to the days on the provider's original full midnight census, a copy of which must be filed with the cost report.

**Nursing Care** – Former INC and SNC levels of care are combined on this schedule for Nursing Care.

**Nursing Care - Hospice Days** – Hospice Days must be separately identified.

**All Schedule - Other Days** – for clarification, if Other Days are identified, the provider must furnish an explanation of these days.

Therapeutic Leave and Reserve Bed Days must be identified in the appropriate columns on the Monthly Census Summary Schedules.

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**Schedule A**

Cost Centers and Cost Account Descriptions and Line Numbers – Schedule A  
Cost Centers, Cost Account Descriptions, and Cost Account Line Numbers have been revised to accommodate the new case mix reimbursement methodology effective 10/1/2003. Please note the distinction between case mix indexed cost accounts and non-case mix indexed cost accounts. Similar to FY03 and prior years, if the providers have the documentation to support direct coding of these costs, the DMA Chart of Accounts identifies direct coding of these expenses in lines A426 – A456. If providers do not have adequate records to support direct coding of these costs, then they must be identified as General Service Nursing costs in lines A101 – A145. These changes are reflected in the DMA Chart of Accounts which was posted to the website

<http://www.ncdhhs.gov/dma/icfmr/NF05Chart.pdf>

This form has been updated to input the average number of employees (or Full Time Equivalents {FTEs}) for paid employees in each cost center. Do **not** input FTEs for nonpaid workers. To determine FTEs, take the total number of hours worked by all employees in the cost center for the cost reporting period and divide by the standard number of hours for a full-time employee in the cost reporting period. (i.e. Full-time employee standard hours amount to 40 hours per week. Cost reporting period is 52 weeks. 40 hours x 52 weeks = 2080 standard number of hours for full-time employee for a twelve-month period.) Enter the FTEs per cost center salary lines in Column 8.

Furnish explanation for all negative expense amounts on column 7 except for the Revenue Offset amount. Written explanations should be submitted with the cost report at the time of filing.

Provider Healthcare Assessment should be reported on Schedule A, Line 261. Please eliminate this payment through a Schedule A-2 entry. This will not negatively impact settlement to the facility and will assist DMA in future cost analysis.

The total of Central Office Overhead – line A232, and directly allocated home office costs coded to other accounts must agree with home office cost on Schedule A-4, column 5 and Schedule A-5, line 2C.

The total of Mortgage/Fixed Asset Interest – line A8, Interest-Operating – line A256, and Interest/Fixed Assets – line A411, and automobile interest expense identified on line A45 must agree with interest on Schedule H, column 9, (Total Line).

Pre-employment screening costs incurred by nursing facilities for employees whose benefits are reported in direct cost centers may be reported as direct costs.

**Schedule A-1**

No reclassification is allowed to have more than forty (40) increases or decreases. A reclassification with more than forty increases or decreases **must** be divided into two or more separate reclassifications.

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**Schedule A-2**

Legend Drugs expense is not to be removed on Schedule A-2.

Providers may not offset reserve bed revenues.

Healthcare Assessment reported on Schedule A, Line 261 should be removed on Schedule A-2.

**Schedule A-3**

All compensation paid to owners must be reported on Schedule A-3 and comply with regulations set forth in HCFA-15, Section 900.

**Schedule A-4**

All home office and related organization costs **must** be identified on this schedule, including those related organizations deemed non-related by exception. Cost reports submitted without all related organizations identified will be deemed incomplete.

A related organization cost report must be filed for all related organizations identified on Schedule A-4. For those related organizations that are deemed 'non-related by exception' pursuant to HCFA-15, Section 1010, we require the submission of the following information:

1. A written statement that the related organization is a bona fide separate entity.
2. Documentation to support that greater than 50% of the related organization's business is with unrelated organizations. Documentation will include, but not limited to, a written report showing year-to-date sales by customer for the entity. Related and non-related customers must be identified.
3. A written statement that the goods and services furnished are commonly obtained by nursing facilities from other organizations.
4. Documentation to support that there is an open competitive market for goods or services supplied, and they are furnished to the provider at prices comparable to those charged other customers. Documentation will include, but not limited to, price lists, invoices or other support that prices are the same for all customers.

A related organization must meet all four of the criteria at HCFA-15, Section 1010 to be deemed 'non-related by exception'. The above information must be submitted with the cost report at the time of filing. **Failure to submit the above information at the time of the cost report's filing date shall result in the disallowance of said costs.**

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**Schedule B-1**

All statistics for allocating General Service Costs must be accurate, reliable, and identified on Schedule B-1 in accordance with the provisions outlined in Chapter 23 of the Provider Reimbursement Manual (HCFA-15).

- **Nursing Services** - Statistics for Nursing Services must be actual nursing hours by level of care or based on approved current periodic time studies per HCFA-15, Section 2313.2E.
- **Laundry & Linen** – Statistics to allocate Laundry & Linen costs must be based on pounds of laundry by level of care.
- **Statistics Based on Total Inpatient Days** - Statistics based on total inpatient days must not include days for therapeutic leave and reserve beds. Inpatient days used as statistics on Schedule B-1 must only include days in which patients are actually present in the facility.
- **Capital, OMP and Housekeeping** - Statistics based on square footage must agree with prior year field audited square footage unless prior approval has been granted by the Division of Medical Assistance.

Square footage statistics must be reported as follows:

- 1.) Actual square footage by cost center (Radiology, Laboratory, Physical Therapy, Occupational Therapy, Speech Therapy, Oxygen Therapy, Intravenous Fluids, Billable Medical Supplies, Parenteral/Enteral Therapy, Nursing Care, Adult Care Home, Adult Day Care, Barber/Beauty Shop, Vending, and Other). Square footage must be consistently identified by cost center as net or gross; or
- 2.) Actual square footage by cost center with square feet of inpatient routine care (Nursing Care, Vent, & Head Injury) allocated on patient days. (Square footage reported for Adult Care Home must be actual.) Square footage must be consistently identified by cost center as net or gross.

**Schedule C**

All charges reported on Schedule C and Schedule D must be supported by the provider's financial records including, but not limited to, patient logs reporting the ancillary services furnished by patient type and level of care. Failure to maintain proper documentation to support ancillary charges on Schedules C and D may result in the disallowance of ancillary costs. Note that former levels of care for INC and SNC are combined to Nursing Care.

**Schedule D**

Assure Health Care Program ancillary charges by level of care do not exceed total ancillary charges by level of care on Schedule C.

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**Schedule E**

**Health Care Assessment Paid to DHHS Controller's Office** – Enter the full amount paid by the provider to the DHHS Controller's Office for the Health Care Assessment on all **non-Medicare** days for the cost report period on Sch-E, Part V, Line 7.

**Computation of Direct and Indirect Costs** – With the new reimbursement methodology implemented 10/1/2003, a new input screen was created for the Vent Services Prospective Rate and the Head Injury Prospective Rate. With that change, these two levels of care are not cost settled, but paid a prospective rate.

**Schedules F, G, H, and I**

State-owned facilities are not required to complete Schedules F, G, and H. Also, Schedule I has been removed from the facility cost reporting software.

**Schedule of Nurse Aide Training Expenses**

If Nurse Aide Training and/or Competency Evaluation was furnished by other than personnel of the nursing facility, list entity on line 16. The entity listed must be approved by the Division of Facility Services to perform Nurse Aide Training.

On line 17 enter the names of the nurse aide trainers who received salaries/wages reported on lines 1, 2 and 3. Do not include the names of trainers who only furnished continuing education.

**{NEW}** **Medication Aide training expenses incurred after June 30, 2006 should be entered on this schedule along with Nurse Aide expenses.**

**Home Office Cost Statement**

Home office cost reporting software is available online. Providers may download the software and instruction manual by accessing the DMA web site at <http://www.ncdhhs.gov/dma>.

**Printing the Cost Report**

Please use the <Calculate> option each time before printing the cost report.

**Filing the Cost Report**

The cost report for the fiscal period ended June 30, 2007 is due by Tuesday, November 27, 2007. Extensions beyond this due date will not be granted. The Division of Medical Assistance may withhold up to twenty percent (20%) of a nursing facility's payments for **failure to file** a completed cost report.

**{NEW}** **The software has changed for FYE 6/30/2007 to add provisions to create files on computers not having a floppy drive. See Nurse07 User Manual – State Facility for more information.**



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**Field Audits**

If your nursing facility is chosen for a field audit, financial records supporting the cost report must be made available to the field auditors on an agreed upon time table. **Failure to furnish requested financial records may result in the repayment of all Medicaid monies.**

**Other**

Costs associated with the Eden Alternative are allowable in the Patient Activities cost center. Any Eden Alternative grant revenue received from the Division of Facility Services should be reported as a revenue offset on line A-214. Eden Alternative costs will be monitored by DMA for reasonableness.

Providers are required to disclose any operations not specifically addressed by the cost report which are not related to nursing facility patient care (i.e. Adult Day Health Care, Independent Living Units, etc.).

**Questions About Cost Report Preparation?**

If you have questions about the preparation of the cost reporting forms, please contact the DMA Audit Section at (919) 647-8060 or email Jim Flowers at [jim.flowers@ncmail.net](mailto:jim.flowers@ncmail.net).

**State-owned Nursing Facility  
Cost Report Checklist  
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The following items must be received by DMA by Tuesday, November 27, 2007:

- \_\_\_\_\_ One Diskette for each Cost Report completed using the 'Create Mail-in Diskette' option
- \_\_\_\_\_ Signed and dated copy of the Information/Certification Form
- \_\_\_\_\_ Diskette and Certification Form for the Home Office Cost Report, if applicable
  - *A paper copy of the Home Office and/or Related Organization cost report is required to be filed if DMA software is not used.*
- \_\_\_\_\_ One Diskette and Certification Form for each Related Party Cost Report, if applicable
  - *A paper copy of the Related Organization cost report is required to be filed if DMA software is not used.*
- \_\_\_\_\_ Related Organization information (HCFA-15, Section 1010 criteria), if applicable
  - *This information is required if a facility has business transactions with a related organization deemed 'non-related by exception'.*
- \_\_\_\_\_ FY 2007 Medicare cost report (must be mailed to DMA-Audit Section as soon as it is available)
- \_\_\_\_\_ Working Trial Balance for the nursing facility with **annotated** cost report line numbers (preferably in Excel or Lotus spreadsheet format).  
**Warning** -- Cost reports filed without this cross-referencing will be deemed incomplete and delinquent.
- \_\_\_\_\_ Copy of contracts for new, renewed, or amended lease agreements
- \_\_\_\_\_ Census Report
- \_\_\_\_\_ Other information deemed necessary to supplement cost report information, for example:
  - *explanation of unusual adjustments on Schedule A-2 or reclassifications on Schedule A-1*
  - *explanation of unusual cost variances when compared to the prior year*